

# Business Plan for **Bellon Pty Ltd**

## **Prepared by *Renovo***

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# Table of Contents

<b>1 Executive Summary</b>	<b>1</b>
1.1 Introduction	1
1.2 Company Background	1
1.3 Market	2
1.4 Staff	2
1.5 Finances	2
1.6 Future	2
<b>2 Company</b>	<b>3</b>
2.1 About Bellon	3
2.2 Management Team, Shareholders & Directors	3
2.3 Company Objectives	3
2.4 Current Activities	3
2.5 Financial Situation	4
<b>3 The Opportunity</b>	<b>4</b>
3.1 Our Products	4
3.2 Intellectual Property Protection	5
3.3 Market Analysis	5
3.4 Competitor Analysis	6
3.5 Addressable Market	6
3.6 Recent Developments & Key Milestones Achieved	10
3.7 SWOT Analysis	11

<b>4 Marketing Strategy &amp; Plan</b>	<b>12</b>
4.1 Targeted Marketing Plan	12
4.2 Bellon's 3 Stage Marketing Strategy	12
4.3 Brand Management	13
<b>5 Development Strategy</b>	<b>14</b>
5.1 A Different Business Model	14
5.2 Gaining Value	14
5.3 Sustaining Value	15
<b>7 Team &amp; Organisation</b>	<b>15</b>
7.1 Current Management Team	15
7.2 Forecasted Organisation Structure	15
7.3 Key Staff Hirings	16
7.4 Business Culture	16
<b>8 Operational Plan</b>	<b>16</b>
8.1 Research & Development (R&D)	16
8.2 Business Premises	17
8.3 Suppliers	17
8.4 Production	17
8.5 Facility Requirements	18
8.6 Inventory Control	18
8.7 Product Support & Maintenance	18
8.8 Key Objectives & Milestones	19
<b>9 Key Assumptions &amp; Critical Risks</b>	<b>19</b>
9.1 Key Assumptions	19
9.2 Critical Risks	20

9.3	Risk Matrix	21
<b>9</b>	<b>Finances</b>	<b>22</b>
9.1	Key Financial Elements	22
9.2	Financial History	22
9.3	Necessary Funding	22
9.4	Key Economic and Financial Assumptions	23
9.5	Capitalisation Table	24
9.6	Sensitivity Analysis	24
9.7	Financial Statements	24
9.7	Break Even	29
9.8	Exit Strategy	29
<b>Appendix A</b>		<b>30</b>
	Aliquam lacinia	30
<b>Appendix B</b>		<b>30</b>
	Financial Statements	30

# 1 Executive Summary

## 1.1 Introduction

Every one of us has used a video intercom system when we enter a large residential complex – we take it for granted. They are almost ubiquitous in all new apartment blocks, and with personal security a major concern for all of us in this current international climate video intercoms are here to stay.

For the developers of large residential properties, these intercoms represent a problem. The current systems are expensive, use proprietary wiring, and are inherently unstable. The solution is Bellon. Our products use a standard that everyone is familiar with, the same standard that connects your computer to the internet, known as TCP/IP. Our patent-protected intercom systems give consumers a high-quality, reliable, versatile and secure intercom while giving developers a much more cost-effective and low-maintenance system.

## 1.2 Company Background

Bellon is a specialist technology company based in Sydney. It is focused on the design and delivery of leading edge Internet protocol (IP) based, Ethernet enabled Audio Visual Devices (AVD) and services.

Bellon was founded in August 2005 by Brian Rodrigues and Dejan Stanojevic after market feedback from developers like Lend Lease Developments and Payce Development told them about the problems with current systems and asked them to solve it. They developed two products (the Bellon AVD 500 Apartment Unit and AVD 600 Entry Unit) in response to this feedback. Patent protection was then obtained surrounding this technology to secure future growth and global leadership. Bellon is realistic in its focus and objectives, including:

- Increased product traction in the market to achieve global leadership in internet protocol based intercom products.
- Achieve revenues of ~AUD\$6 million by end of the FY 2010/11.
- Pursue strategic national and international partnering to strengthen and further the company's position.
- Bellon's products have already been successfully installed with excellent testimonials in a number of successful high profile sites. These include Government House (Sydney), St Vincent's Hospital (Melbourne).

### 1.3 Market

The global market for installed intercom systems is forecast at between AUD\$800m-\$1.0bn, with an estimated **target market worth AUD\$160m-200m**.

The company has a marketing strategy focused on achieving global product distribution within a short timeframe. This is essential, as the only major risk experienced by the company is of a competitor copying the product and entering the market first.

The first market targeted will be **residential installations**. This includes installations into high-rise apartments, gated communities and retirement communities. The second market targeted will be commercial installations. Initial geographic market sectors are focused on Australia, UAE and United States, and distribution networks have already begun to be established. The company's marketing strategy will be aimed at influencers in residential project development, such as architects, system integrators, consulting engineers and developers. The company is currently attracting a high level of interest in its products from international distributors including Schneider, BPT and Vercoma.

### 1.4 Staff

Bellon is in a strong position with its management team currently consisting of only two individuals, Brian Rodrigues (Commercial Director) and Dejan Stanojevic (Technical Director). They are dynamic and extremely resourceful, having developed the technology wholly in-house and drawing on 20 years of experience in electronics research a development as well as sales. Additional staff will be hired in all sectors to enable the growth and success required.

### 1.5 Finances

The company is currently seeking \$1,200,000 to fund a rapid international market expansion. The current preferred exit strategy is a corporate buyout, however if the price is not suitable then an IPO has been contemplated. All capital up to this point as been provided by the inventors, to the value of \$150,000. The company has also been awarded a \$64,000 grant under the Commonwealth Government COMET programme.

Bellon anticipates that it will generate **net profits of AUD\$4m by 2011**, and an EBIT of \$6m in 2011. The company is expected to break even within the next 6-12 months.

### 1.6 Future

The future looks incredibly strong for the company. Not only is there the potential to expand into commercial and government installations, there is also the incredible modularity of the product – for example, by working over TCP/IP the intercom can be made wireless, or biometrics such as fingerprint scanning could be integrated for additional security.

# 2 Company

## 2.1 About Bellon

Bellon is currently in the area of providing security systems, focusing on Internet Protocol (IP) based, Ethernet enabled Audio Visual Devices (AVD) and services, aided by an innovative technology developed by the company in-house.

The company was founded in August 2005 after a request from property developers such as Lend Lease Developments for a more reliable and stable intercom system.

Two products (Bellon AVD500 Apartment Unit and AVD600 Entry Unit) have been produced to fill this market niche. Both are novel intercom devices with platform technology capabilities.

## 2.2 Management Team, Shareholders & Directors

Bellon is fully owned by **Brian Rodrigues** (Commercial Director) and **Dejan Stanojevic** (Technical Director), who also form the management team. The presence of only 2 staff members is sufficient for the company at this stage. Additional staff will be employed as the company grows. This will suffice for advisory requirements and corporate governance.

## 2.3 Company Objectives

- Achieve revenues of AUD\$20 million by end of FY2009/10.
- Release a range of IP-based intercom products to the global market.
- Increase product traction in the market.
- Expand the company to become a global supplier.
- Maintain its position as a market leader through rigorous research and development and strategic alliances.

## 2.4 Current Activities

The company is currently focused on:

- Building the Bellon brand through marketing.
- Coordinating the manufacturing and production process to meet future demand.

## 2.5 Financial Situation

To date, all research and development, business development, sales and marketing, and intellectual property activities have cost a total of AUD\$150,000.

Bellon has recently received a AUD\$64,000 COMET grant from the Australian government, which will be used for initial business development and planning stages of intellectual property filing.

Sales revenue is currently detailed at approximately AUD\$100,000 per year. The company is dependent on this revenue for operations and growth. To achieve further growth, additional funds are being sought through private equity and further government funding.

# 3 The Opportunity

## 3.1 Our Products

Bellon currently has 2 products: the AVD500 Apartment Unit and AVD600 Entry Unit. The underlying technology is based on the combination of proprietary firmware and the Power-Over-Ethernet industry standard.



AVD500 Apartment Unit



AVD600 Entry Unit

### 3.1.1 Features & Benefits

Bellon's product range offers many benefits to developers of large-scale properties. The novel application of Ethernet technology has given Bellon intercom systems a distinctive edge over competitors. Such features include:

- No additional wiring required, **removing all proprietary wiring installation and maintenance costs.**
- Real time high quality video (not achieved by competitors) and audio.
- Can be installed into any building (old or new) that has Ethernet wiring infrastructure.
- Increased stability and robustness.
- The ability to access the system remotely; and incorporate wireless technology.



### 3.2 Intellectual Property Protection

The technology is protected by Australian patent number 2006 200087, filed in January 2006. Additional patent filings will be made in other jurisdictions as the company expands.

The company has also trademarked the Bellon brand name, and owns the domain name [www.bellon.com.au](http://www.bellon.com.au).

### 3.3 Market Analysis

Development of this technology was motivated by market feedback from large property developers including Lend Lease Developments and Payce Developments. They indicated that **traditional apartment intercom systems were unreliable** and lacked stability and robustness in high-end residential apartments.

#### 3.3.1 Market Failures

Bellon has been identified and addressed several market failures within the audio/visual intercom device industry, as outlined in Figure 1.

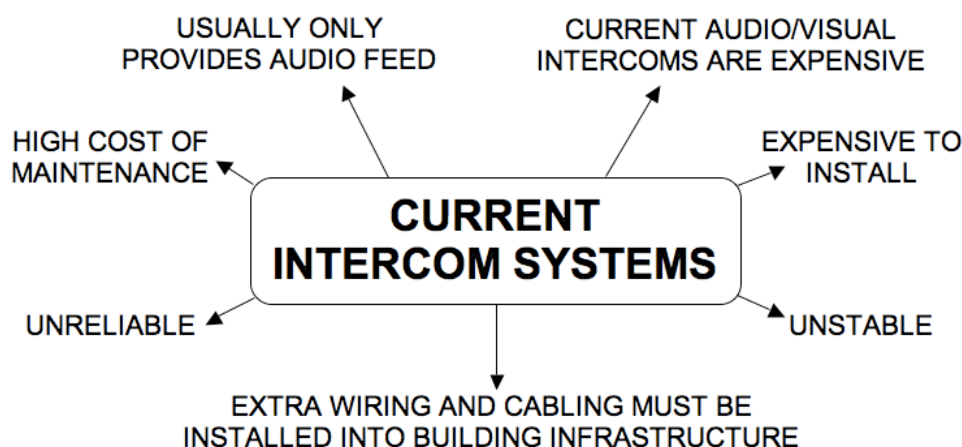


Figure 1. Current market failures identified by Bellon.

#### 3.3.2 Market Need

The company identified the following features which were desired by the market:

- Easy to use and maintain.
- Reliable and stable.
- High quality audio and visual feed.
- Does not use proprietary cabling.
- Can connect to/from remote locations, even wirelessly e.g. between offices
- Provides communication between security access points, and between buildings.

### 3.4 Competitor Analysis

Analysis of the product range of 3 multinational companies servicing the audio/visual intercom systems market is provided below.

Feature	Company Name		
	AIPHONE (Japan)	BPT (Italy)	ELVOX (Italy)
<i>Cabling Requirements</i>	Proprietary: additional cabling and connectors required.		
<i>Ease of Installation</i>	Additional labour time is required due to proprietary wiring.		
<i>System Stability</i>	Problematic due to reliance on proprietary cabling.		
<i>Power Supply</i>	Proprietary cabling.		
<i>Security &amp; Monitoring</i>	Does not allow for central control.		
<i>Remote Access</i>	Not possible as the system is contained within the building.		
<i>Product Design</i>	Complicated to use due to poor interface.		

Overall, the dominant companies in this industry allocate a relatively small proportion of resources towards R&D. New products generally only contain slight improvements to their predecessors.

### 3.5 Addressable Market

Bellon is currently targeting 2 specific addressable **global markets**: residential installations and commercial installations. These two markets are outlined in Figure 2.

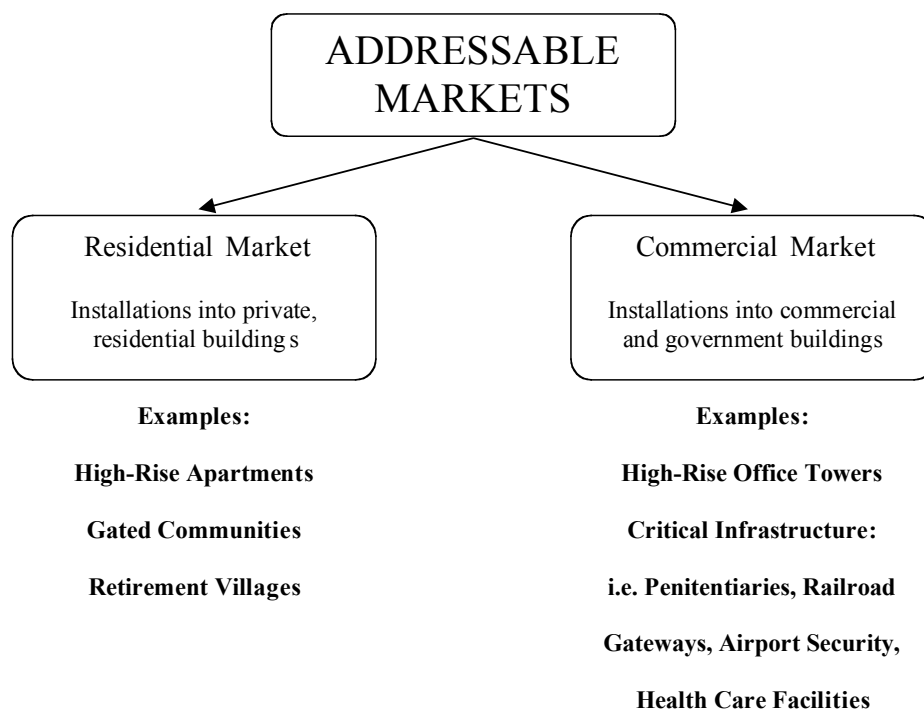


Figure 2. Addressable markets identified by Bellon

The company will first target residential installations, in particular the luxury high-rise apartment sector. The current focus is within the Australian, U.S and the United Arab Emirates (in particular Dubai). Once traction and reputation of Bellon's products have been gained, sales will be expanded into the European markets as well as North and South Asia.

### 3.4.1 Residential Installations Market

For calculation of serviceable markets, it has been estimated that it is equivalent to 20% of the addressable market.

- Australia:** As can be seen in Figure 3, the total number of dwelling units approved in Australia has been decreasing from 2003 to 2006. However, in comparison, the number of approvals for new flats, units or apartments in a building of four or more storeys has decreased from 2003, but has stabilised to approximately 16,000 building approvals per year (Figure 3). Of this number, it is estimated that 20% are luxury high rise units. This then equates to approximately 3,800 dwelling unit approvals for Australia in total per year, for luxury high rises of four or more storeys.

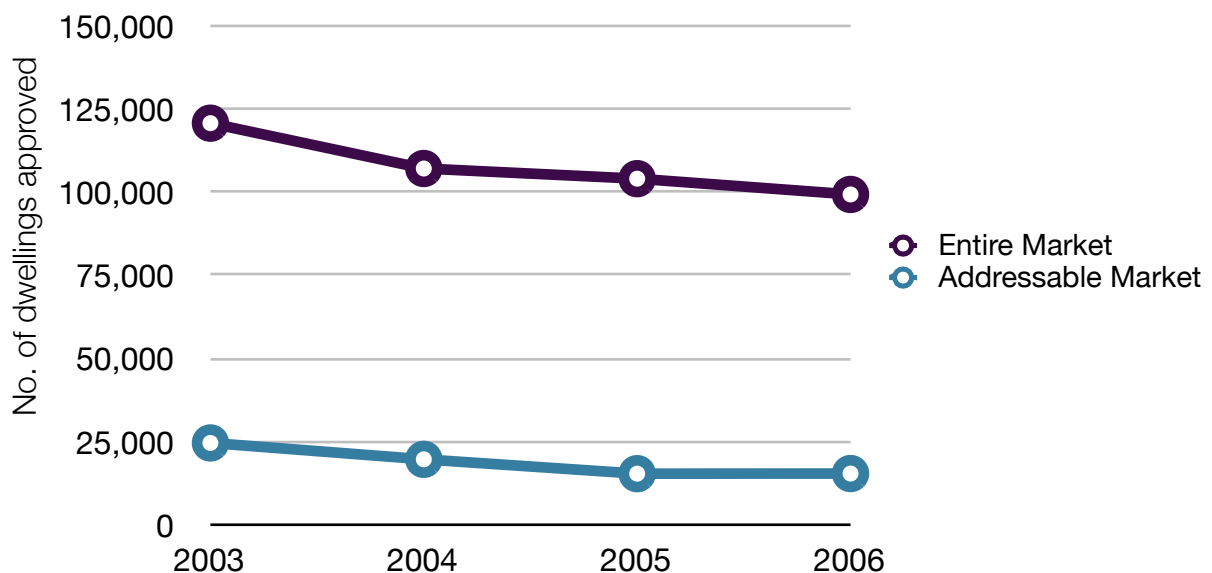


Figure 3. Total no. of dwelling units (entire market) and new residential buildings of four or more storeys (addressable market) approved in Australia.

[Source: "Building Approvals January 2007", Australian Bureau of Statistics]

The addressable market consists of an average of approximately 19,000 units/year. Using the 20% assumption, this equates to a serviceable market of 3,800 dwellings.

- United States:** As can be seen in Figure 4, the total number of dwelling units approved in the United States has been at a stable level of approximately 1.85 million a year (over the past 7 years). However, in comparison, Permits for privately owned number of dwellings with 5 or more units has increased gradually from 2000, to an average of approximately 356,000 building approvals per year (Figure 4). This then equates to

approximately 72,100 dwelling unit approvals for the United States in total per year, for luxury high rises of five or more storeys.

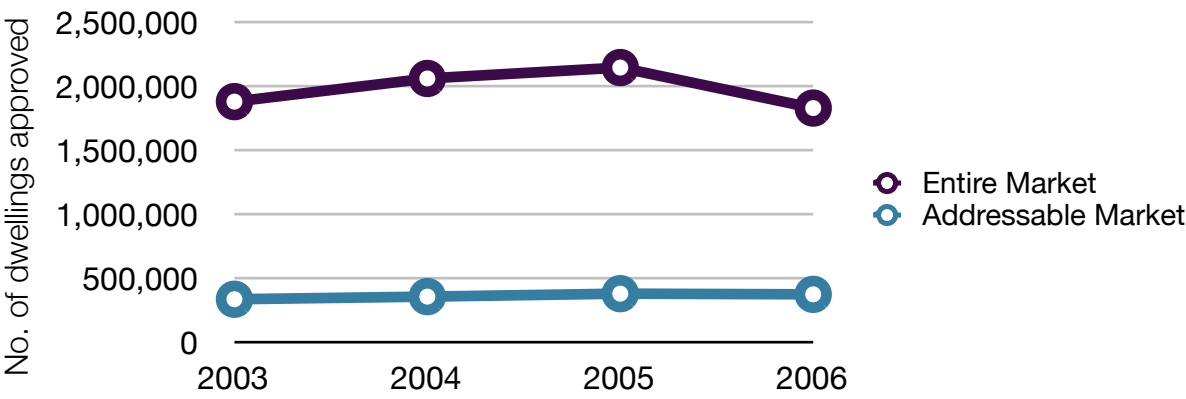


Figure 4. Total no. of privately owned dwelling approvals (entire market) and privately owned dwelling approvals with 5 or more units (addressable market) approved in the US.

[Source: US Census Bureau]

The addressable market consists of an average of approximately 356,000 units/year. Using the 20% assumption, this equates to a serviceable market of 72,100 dwellings.

- **South East Asia:** Housing statistics for many countries in this area were not available. We will be using housing trends in Japan as indication of trends. As can be seen in Figure 5, the total number of dwelling units in the Japan has been steadily increasing over the past 10 years. However, in comparison, permits for privately owned number of dwellings with eleven or more stories has increased from 1993, to an average of approximately 1,500 building approvals per year (data presented for every 5 years) (Figure 5). Of this number, it is estimated that 20% are luxury high rise units. This then equates to approximately 300 dwelling unit approvals for Japan in total per year, for luxury high rises of eleven or more storeys.

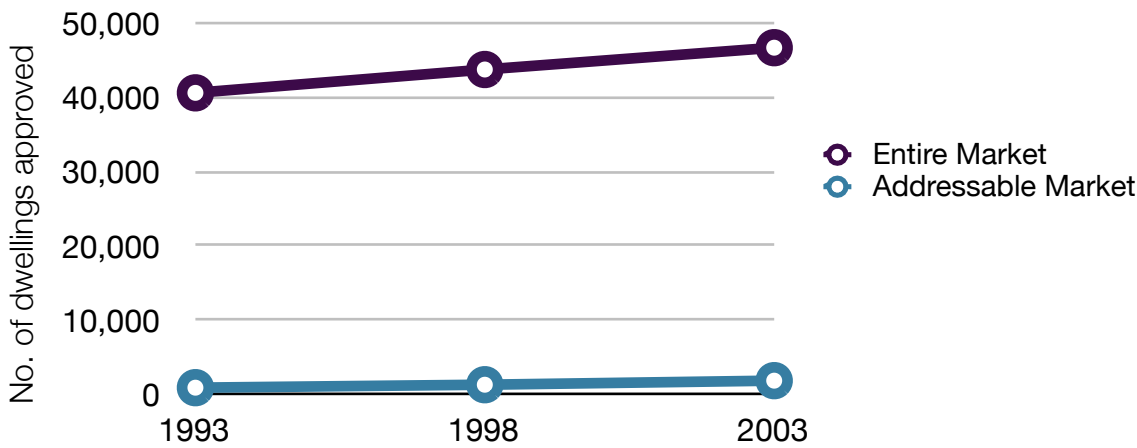


Figure 5. Total no. of dwellings (entire market) and total number of dwellings of 11 or more storeys (addressable market) in Japan. [Source: Japan Statistics Bureau]

The addressable market consists of an average of approximately 1,500 units. Using the 20% assumption, this equates to a serviceable market of 300 units.

- **Middle East:** As can be seen in Figure 6, the total number of housing units the United Arab Emirates has been at a increasing almost exponentially over the past 25 years. Unfortunately, there is no data available for the estimation of high-rise apartments in the United Arab Emirates.

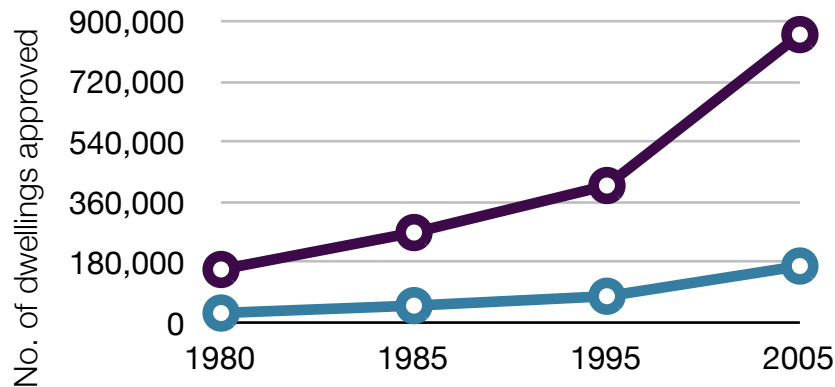


Figure 6. Total no. of housing units (entire market) and total number of high-rise units (addressable market) in the UAE.

[Source: United Arab Emirates Census 2005]

Using most recent data point (2005) (other data points are too historical), we estimate the serviceable market is estimated at 34,554/year.

- **Europe:** As can be seen in Figure 7, the total number of dwelling units in the European Union has been stable over the past 13 years at approximately 2.14 million per year. In comparison, using the 20% assumption, it is estimated that there is approximately 428,445 high-rise dwelling units approved per year. Of this number, it is estimated that 20% are luxury high rise units. Using average (416870 dwelling approvals per year) of the two recent data points (2000 and 2003), this then equates to approximately 83,374 dwelling unit approvals for the European Union in total per year, for luxury high rises.

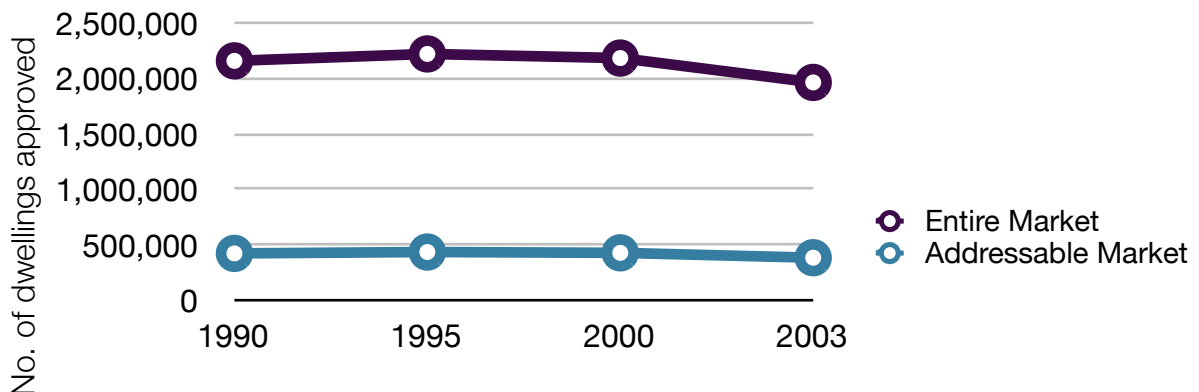


Figure 7. Total no. of housing units (entire market) and high-rise units (addressable market) in the European Unit. [Source: National Agency for Enterprising Housing, European Union 2003]

The addressable market consists of an average of approximately 1,500 units. Using the 20% assumption, this equates to a serviceable market of 300 units.

### 3.6 Recent Developments & Key Milestones Achieved

Bellon has had exceptional success in a very short period of time, due to a superb product and excellent strategic alliances. Currently, over 70 units have been installed in key areas across Australia with great success, demonstrating the functional and value added benefits of Bellon's products. Notable achievements include:

- Patent application accepted in June 2007.
- **Chubb Electronic Security** installed Bellon products over a wireless LAN (local area network), and at Government House (Sydney).
- Installations at large scale sites including St. Vincent's Hospital (Victoria), Jackson's Landing residential development (New South Wales); and a 30 unit development in Oatley (New South Wales).
- **Vercoma**, a large product distributor based in the Netherlands, is currently trialing the Bellon system, with an anticipated Netherlands product launch in November.
- **Cisco** has specified Bellon products to be installed into a 200 unit development in Port Macquarie (New South Wales) due to be completed in 2008/09.
- Cisco has indicated that, upon successful completion of integration capability, it will give Bellon access to its international base of installers (consisting of more than 30,000 units). This will provide Bellon with an additional distribution channel.
- **Schneider Asia-Pacific** and **BPT** (Italy) have signed Non-Disclosure Agreements with Bellon. This will likely lead to distributor arrangements in the near future.
- Bellon is in advanced discussions with a number of US companies including Hotwire, a large distributor based on the east coast.

### 3.7 SWOT Analysis

A SWOT analysis, along with intended strategies to capitalise and/or mitigate against them, is provided below.

Strengths	Weaknesses
<b>Technical leadership:</b> Drive sales, maintain quality and continue R&D.	<b>Tight financial resources:</b> Seeking strategic/channel partner.
<b>Platform technology:</b> Increase R&D.	<b>Lack of international channel partners:</b> Establishing channel partner matrix.
<b>Significant industry experience:</b> Increase market exposure, testimonials.	<b>Lack of global product management experience:</b> Seeking experienced senior executives to employ.
<b>Global market applicability:</b> Satisfy consumer need.	
<b>Product design:</b> Strengthen IP protection.	
Opportunities	Threats
<b>Global market potential:</b> Adopt aggressive growth and sales strategy.	<b>Patent infringement:</b> All manufacturing and production conducted locally.
<b>Strategic international partnering:</b> Negotiations in progress.	<b>Product superseded by competitor:</b> Adopt aggressive sales strategy, continual R&D.
<b>Potential to diversify into other markets:</b> R&D in progress.	<b>Loss of technology to manufacturer of units:</b> Unlikely due to patent protection.
	<b>Mature market dominated by several multinational companies:</b> Employ marketing strategy focused on exposure of the Bellon brand.

# 4 Marketing Strategy & Plan

## 4.1 Targeted Marketing Plan

Marketing will be aimed at people who influence system specification during the development stage of a residential project. Bellon has identified these people as the encompassing architects, system integrators and project developers.

A majority of the marketing budget will be used to promote Bellon's product range to this target audience as they will influence potential distribution companies. The company will employ a combination of **direct sales** tools, **print and on-line advertising** and attendance at **trade shows** to lift product line visibility.

A more detailed Strategic Marketing Implementation plan will be developed in conjunction with a selected marketing consultant.

End-users, such as home owners and home buyers, will also be targeted. Although the end-users are not the key purchasers of the AVD intercom systems, exposure of the Bellon brand is essential in order to foster a reputation within the community.

## 4.2 Bellon's 3 Stage Marketing Strategy

Bellon's marketing strategy is currently divided into 3 stages, as outlined in Figure 3.

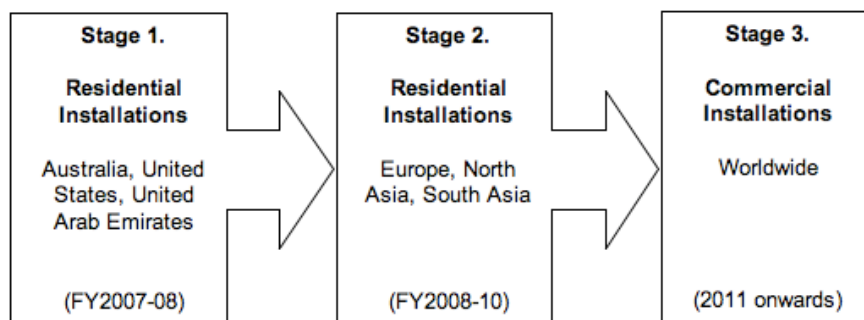


Figure 3. Bellon's 3 Stage Marketing Strategy.

To maximise benefit of the patented technology, Bellon aims to have its products distributed globally within an 18-month timeframe. Due to the high technology nature of the industry, this will also mitigate risk associated with the products being superseded by competitors.



#### 4.2.1 Marketing Strategy Implementation Timeline for Residential Installations

	2007		2008						
	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
Australia									
United Arab Emirates									
United States									
Europe									
South Asia									
North Asia									

To achieve these goals, the company is aiming to establish **strategic alliances** with large-scale companies with mature distribution networks. These distribution partners will be based in strategic geographic areas, and ideally have a product range that is complementary to Bellon products. This is however dependent on the targeted addressable market and geographical location. It is anticipated that distribution partners for residential installations will also be responsible for commercial installations when the opportunity arises.

#### 4.3 Brand Management

Visibility and reputation of the Bellon brand name is vital to gain market traction.

To increase awareness, the company will stipulate in contracts with distribution partners that the Bellon brand is always included on all Bellon products to be distributed. This will ensure marketing leverage to establish and accelerate the growth of value in the Bellon brand. It will also offset the expenses to the distributors, allowing maximum return on investment.

# 5 Development Strategy

## 5.1 A Different Business Model

Bellon is adopting a new business model that is **unique** in the intercom devices industry. Traditionally, companies in this sector were able to rely on maintenance of its intercom systems for recurring revenue. This was possible as intercom systems from different companies are incompatible with each other due to proprietary wiring, and effectively provided a company with a fixed income stream for each intercom system it installed.

The incorporation of Ethernet technology allows for a diverse range of applications for Bellon products, giving the company access to a much wider market. Bellon will exploit this by adopting an aggressive R&D strategy, and achieve recurring revenue through sales.

The business model was adopted based on consideration of the following key variables:

- ✓ Global market
- ✓ IP protected technology
- ✓ Value-added product range
- ✓ Low cash burn rate
- ✓ Extensive experience
- ✓ Distributors available

## 5.2 Gaining Value

### 5.2.1 *Maximising Profits*

To establish itself as a high quality brand, the company will first target the high-end of the market. This also enables Bellon to use a pricing strategy that maximises profits.

Products will be priced at the same level as competitors, positioning Bellon products as the more cost-effective choice for property developers.

### 5.2.2 *Prioritising Innovation*

Developing a diverse and exploitable IP portfolio forms the core of Bellon's business model. Efficient use of human capital will be a critical factor in realising this. Initially, it will be achieved by outsourcing other operations, such as distribution, manufacturing and production.

### 5.2.3 *Focusing on the End-User*

The company recognises the importance of satisfied end-users. Positive feedback from users will benefit property developers, and ensure wide exposure of the Bellon brand.

The focus of R&D at Bellon is not only functionality but also usability, an important factor overlooked by competitors. The company has also outsourced the aesthetic design of products to an award-winning industrial designer.

#### 5.2.4 Pull Strategy

Bellon will employ a pull strategy, whereby production is conducted on a per-order basis. This reduces cash burn rate and wastage.

### 5.3 Sustaining Value

Ongoing R&D will be conducted to diversify applications of Bellon products; and create new and novel ones. This will enable the company to gain traction in a variety of markets, with sales providing a steady revenue stream. Potential applications include:

- Incorporating a security system into the intercoms.
- Addition of biometrics to the intercom system, e.g. retinal scan.

As mentioned previously, **commercial and government installations** are also target addressable markets. This is especially the case in countries where security has become increasingly important in recent years.

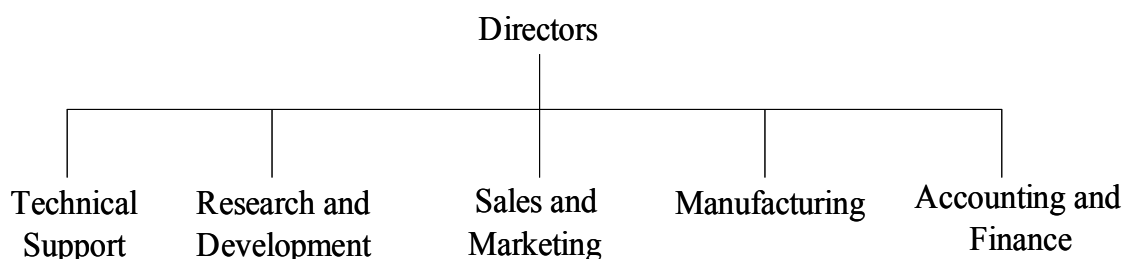
## 6 Team & Organisation

### 6.1 Current Management Team

**Brian Rodrigues** (Commercial Director) has over 20 years of experience in sales and marketing of satellite and cable television products, and is currently Business Director of Digital Data Communication Pty. Ltd. He has an invaluable network of industry contacts that has been beneficial to the development of Bellon.

**Dejan Stanojevic** (Technical Director) has been involved with the research and development of electronic communication products for the past 15 years. Such products have included healthcare communications and highway emergency telephone systems.

### 6.2 Forecasted Organisation Structure



### 6.3 Key Staff Hirings

Additional staff and management will be needed as the company grows. Key personnel will be hired to create synergy, and a driven and adaptable work environment, for Bellon.

To enable more rapid promotion of the Bellon brand, priority is currently given to the hiring of senior level sales staff. Managers for Sales and Marketing; Manufacturing; and Finance will also be sought. It is anticipated that these hirings will be made within the next 2 years.

Suitable candidates will be sourced from network contacts and recruitment companies. They will preferably have experience in the electronics industry, with appropriate educational background and professional experience.

### 6.4 Business Culture

Bellon values investment in human capital. The company will prioritise research and development to maintain market leadership,. This will have flow-on effects for the working culture, which will be a nurturing environment to promote innovation and creativity.

## 7 Operational Plan

### 7.1 Research & Development (R&D)

Bellon's R&D strategy focuses on 2 key areas:

#### 7.1.1 ***Market-driven Operational Improvements***

Most improvements directly follow feedback from both distributors and potential end-users.

#### 7.1.2 ***Integration with Proprietary Systems***

The aim of this project is to allow the Bellon system to effectively integrate with proprietary systems currently sold by established companies such as CISCO and Clipsal.

If successful, market share of Bellon products will undoubtedly increase, as end-users will no longer be restricted to use the proprietary equipment of one company. It will also allow the company to enter niche markets that have specific requirements, such as aged care facilities.

The combination of these factors will provide additional leverage with distributors.

### 7.1.3 Current Projects

Please note that budget allocations do not include wages and salaries.

Project	Budget (AUD\$)	Planned Completion Date
Concierge Software	20,000	October 2007
Lift Software	17,500	October 2007
IP Camera	30,000	June 2008
Proprietary Systems Integration	320,000	June 2008
Online Diagnostic Software	150,000	June 2009

## 7.2 Business Premises

The company intends to rent a small warehouse and associated office premises in Sydney. This will allow Bellon to maintain the procedures that it has already established with suppliers.

## 7.3 Suppliers

Bellon aims to use companies with extensive experience in their respective fields to ensure that the end products are of high quality.

- **Component Suppliers:** Abelia Repetition Engineering Pty Ltd; Arrk Australia & New Zealand Pty Ltd; Avnet Technology Solutions; Interfab Pty Ltd.  
(NB: product components are non-proprietary. These companies are not strategic partners).
- **Contract Manufacturer:** Dayang Electronic Manufacturing
- **Industrial Design:** Michael Hort Design
- **Accounting:** Fincare Accountants
- **Solicitors:** Maxwell & Associates

All suppliers are currently based in Sydney. This proximity in location is beneficial as it enables:

1. Relative security of IP: to mitigate risk from IP infringements.
2. Logistical flexibility.
3. Direct quality control.

## 7.4 Production

Bellon is committed to maintaining all manufacturing and production in Australia. Additional expenditure on freight is offset by the low weight and high returns, of the products.

Management will regularly assess the efficiency of production, and evaluate alternative methods and processes. An example is the acquisition of a zinc casting mould in June 2008, which will reduce production cost of the cover component by an estimated AUD\$55 per unit.

In addition to quality benchmarks set in contracts with suppliers, Bellon also has a separate quality assurance process which is conducted prior to shipping of the product to ensure that company standards are met.

#### **7.4.1 Forecast Production Volumes**

	<b>FY 2006/07</b>	<b>FY 2007/08</b>	<b>FY 2008/09</b>	<b>FY 2009/10</b>	<b>FY 2010/11</b>
Bellon AVD500	28	1,423	7,300	16,300	20,240
Bellon AVD600	7	285	1,460	3,260	4,048

#### **7.4.2 Forecast Production Costs**

	<b>FY 2006/07</b>	<b>FY 2007/08</b>	<b>FY 2008/09</b>	<b>FY 2009/10</b>	<b>FY 2010/11</b>
Bellon AVD500	200	200	175	175	175
Bellon AVD600	200	300	100	100	100

### **7.5 Facility Requirements**

The company has provided approximately AUD\$100,000 worth of initial production tooling to *Dayang Electronic Manufacturing*.

Additional plant and equipment expenditure is likely for new products, or enhancements to existing products. As production levels increase, the company will outsource to a contract manufacturer that can supply its own tooling.

### **7.6 Inventory Control**

Currently, the company does not maintain an inventory to reduce cash burn rate.

However, as the company expands, an inventory equivalent to 20% of production will be maintained to mitigate risks that may delay delivery to clients. This may enable the company to receive more funds upfront upon placing of an order.

## 7.7 Product Support & Maintenance

Based on the units currently installed, costs for maintaining Bellon intercom systems are expected to be low,. Furthermore, online diagnostic software currently being developed will allow the company to efficiently and economically provide support to all installed Bellon units.

## 7.8 Key Objectives & Milestones

	2007		2008						
	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
Complete distribution agreement with Clipsal (AUS distributor)									
Complete distribution agreements with Schneider (UAE distributor)									
Complete distribution agreements with Hotwire & Gridconnect (US distributor)									
Complete distribution agreements with Vercoma & BPT (EU distributor)									
Negotiate with Schneider about expansion into Asia									

# 8 Key Assumptions & Critical Risks

## 8.1 Key Assumptions

### 8.1.1 Market Uptake

Great reliance is placed upon the success of the products, and rapid market acceptance. Therefore, effective marketing must take place to ensure capture of all addressable markets.

### 8.1.2 Debtors / Payment Terms

Current practice for delivery of products requires payment prior to dispatchment. As the company expands into the global market, different payment methods for national and international orders will be instigated to satisfy demand.

### 8.1.3 Insurance

Insurance surrounding the products will take the form of Public Liability Insurance valued at AUD\$10,000,000. Compensation for workers will also be carried.

## 8.2 Critical Risks

Identified critical risks are outlined below, ranked in order of importance.

	Critical Risk	Risk Mitigation
1	Product Shifts	An aggressive R&D strategy will be carried out to ensure global leadership. IP protection surrounding current products will provide the highest protection. To mitigate risk from competition, the IP strategy will be fierce to secure the space surrounding global market leadership.
2	Competition	To maintain global leadership, the company will adopt an aggressive R&D strategy to stay ahead of competitors. IP protection will provide a significant barrier for competition. Being vigilant and flexible will allow Bellon to adapt whenever necessary.
3	Shifts in Economy	Due to potential variations in housing markets, Bellon may be exposed to limited cash flow from reduced property construction. This will be circumvented by targeting various markets (both emerging and established) to achieve steady growth.
4	Delays from Supplier	Reliance on a single supplier for product components exposes the company to substantial risk, and greatly delay time-to-market. This will be mitigated through use of several suppliers and also distribution channels.
5	Product Delivery Delays	Currently, manufacturing and production are conducted on a per order basis. Problems with a certain supplier could delay delivery time to clients. This will be mitigated by maintaining an inventory.
6	Currency Exchange Rates	Due to the intended global scale of operations, profitability could be affected by fluctuations in currency exchange rates. A rigorous hedging strategy will be carried out to lower this risk and keep cash flow positive.
7	Changes in Government Policy	Changes in government policy may affect business operations. However, risk associated with this will reduce as the company expands into the global market.
8	Quality Assurance	Strict quality assurance will be carried out to maintain premium quality of the products. This will be managed by stipulating benchmarks which all suppliers must adhere to. As a measure, products will also be subject to in-house quality control before shipping.



	Critical Risk	Risk Mitigation
9	Insufficient Management	Key management staff will be hired within 1-2 years. Appropriate compensation and incentive programs will be established to retain and recruit additional staff.
10	Environmental Risk	The company will endeavour to minimise environmental impact of the manufacturing process by stipulating guidelines in contracts with suppliers and ongoing evaluation.

### 8.3 Risk Matrix

	Risk Profile			Likelihood of Occurrence		
Description	Low	Medium	High	Low	Medium	High
Market Uptake						
Product Shifts						
Competition						
Shifts in Economy						
Insurance						
Delays from Supplier						
Product Delivery Delays						
Currency Exchange Rates						
Changes in Government Policy						
Debtors / Payment Terms						
Quality Assurance						
Insufficient Management						
Environmental Risk						

# 8 Finances

## 8.1 Key Financial Elements

	2007/08	2008/09	2009/10	2010/11
<b>Earnings Growth</b>	-\$492,101	\$370,221	\$4,314,810	\$6,010,485
<b>Gross Margin</b>	5.42%	26.28%	26.94%	21.95%
<b>Units Sold</b>	1708	8760	19560	24288
<b>Unit Price</b>				
AVD500	675	675	675	675
AVD600	1425	1425	1425	1425
<b>Unit Cost</b>				
AVD500	\$200	\$175	\$175	\$175
AVD600	\$300	\$100	\$100	\$100
<b>Headcount</b>	7	17	19	19

## 8.2 Financial History

To date, all product research, development, intellectual property establishment and initial marketing expenditure is estimated to be AUD\$158,258. This has been funded entirely by the Directors.

## 8.3 Necessary Funding

The company has received a COMET grant, and is actively seeking new investment up to the value of \$1,200,000 paid over three years.

Bellon needs this funding to drive strong expansion and research and development measures. The most influential key risk to the company is that of competitive technology being developed. If the company grows slowly and organically, there is the danger of the technology being superseded. Thus Bellon intends to enter international markets rapidly through distributors, while continuing to invest in ongoing research and development. This powerful expansion requires an injection of cash.

Specifically, the cash is necessary for:

- Marketing to improve sales.

- Working capital to increase production.
- International patent protection and filing costs.
- Hiring.
- Research and development.

## **8.4 Key Economic and Financial Assumptions**

### **8.4.1 Inflation Rate**

Inflation has been set at 5% for all the finances of the business plan. This is considered to be quite conservative given the 3% average of the last four years.

### **8.4.2 Tax Rate**

The company tax rate has been set at 30%. This has been assumed to remain uniform, and there is currently no legislation in progress to change this.

### **8.4.3 Exchange Rate**

The exchange rate (USD/AUD) has been set at 0.78. While this will fluctuate, given past averages and predictions of the relative performance of the US economy over the next 5 years it is considered to be a robust and conservative estimate.

### **8.4.4 Sales Mix**

Currently, there is an 80:20 split between the two types of products offered i.e. for every entry unit there are four apartment units purchased. This is based on extrapolations from already received ordering data.

### **8.4.5 Cost Reductions**

Costs of production per unit are predicted to fall by \$25 and \$200 for the apartment unit and entry unit respectively, reflecting an anticipated change in the manufacturing process for several of the components and a more streamlined prototype that has already been developed.

### **8.4.6 Maintenance Costs**

Maintenance costs have been assumed to be 5% of production costs based on industry averages.

### **8.4.7 Sales by Distributor**

Assuming half of all sales in Australia are direct to property developers, and the other half are sold through a distributor with a markup of 30%.

## 8.5 Capitalisation Table

The following table has been done on a fully diluted basis.

	Before Investment			After Investment			At Exit		
	%	#Shares	Value/ Share	%	#Shares	Value/ Share	%	#Shares	Value/ Share
B. Rodrigues	50	1,000	\$5,501	44.55	891	\$5,501	44.55	891	22,207
D. Stanojevic	50	1,000	\$5,501	44.55	891	\$5,501	44.55	891	22,207
VC Equity <sup>^</sup>	0	0	-	10.91	218	\$5,501	10.91	218	22,207

<sup>^</sup> See Appendix B for company valuation.

## 8.6 Sensitivity Analysis

Without doubt the risk that the company is most sensitive to is the risk of a competitor entering the market with a similar or superseding product. This would not only impact on market share, but also profitability due to a possible reduction in price.

The following sensitivity analysis is the worst case scenarios for each of the variables, ranked by impact in 2010. The expected case is in brackets.

Variable	Cases	2007/08	2008/09	2009/10
Price	-20% (1)	-81.46%	-32.03%	-29.97%
Sales Mix	90:10 (80:20)	-43.63%	-32.74%	-29.50%
Exchange Rate	1 (0.9)	-52.97%	-25.91%	-24.72%
Total Sales	-20% (1)	-55.67%	-21.40%	-22.85%
Production costs	120% (1)	-25.79%	-5.74%	-5.26%
Inflation	7% (5%)	0.00%	-0.27%	-0.33%

The Best Case Statement below has a 10% increase in sales and a 10% decrease in costs. The Worst Case Statement below has a 25% decrease in sales and a 10% increase in costs.

## 8.7 Financial Statements

### SUMMARY STATEMENT OF FINANCIAL PERFORMANCE: EXPECTED CASE

	2006/07	2007/08	2008/09	2009/10	2010/11
<b>Bellon AVD 500</b>					
Domestic Revenue ( AUD)	\$16,065	\$386,134	\$803,250	\$1,147,500	\$1,262,250
International Revenue ( USD)	\$0	\$354,375	\$2,787,750	\$6,756,750	\$8,523,900
<b>Cost of sales</b>	\$5,600	\$384,600	\$1,477,500	\$3,152,500	\$3,942,000
<b>Bellon AVD 600</b>					
Domestic Revenue ( AUD)	\$9,975	\$192,375	\$399,000	\$570,000	\$627,000
International Revenue ( USD)	\$0	\$213,750	\$1,681,500	\$4,075,500	\$5,141,400
<b>Cost of sales</b>	\$2,100	\$135,500	\$446,000	\$826,000	\$1,104,800
Inventory cost	\$0	\$52,010	\$288,525	\$795,700	\$949,360
<b>Net Revenue</b>	\$18,340.00	\$637,648.75	\$3,956,058.33	\$8,979,133.33	\$11,076,756.67
<b>Operating expenses:</b>					
Accounting, Legal and Admin	\$4,000	\$49,000	\$51,450	\$54,023	\$56,724
Rent	\$0	\$45,000	\$47,250	\$49,613	\$52,093
Advertising and Marketing	\$18,000	\$400,000	\$1,185,000	\$1,798,750	\$2,102,688
Intellectual property strategy	\$1,800	\$0	\$100,000	\$100,000	\$100,000
IT infrastructure	\$0	\$50,000	\$300,000	\$400,000	\$420,000
Motor vehicle expenses	\$0	\$0	\$65,000	\$180,000	\$180,000
Salaries and wages					
Management	\$0	\$397,375	\$635,250	\$715,523	\$895,010
Technical and sales	\$0	\$133,375	\$926,888	\$1,109,666	\$1,000,670
Machinery and equipment	\$0	\$15,000	\$35,000	\$36,750	\$38,588
Recruitment expenditure	\$0	\$20,000	\$40,000	\$10,000	\$0
Consultant fees	\$16,455	\$20,000	\$200,000	\$210,000	\$220,500
<b>Total Operating Expenses</b>	\$40,255	\$1,129,750	\$3,585,838	\$4,664,324	\$5,066,272
<b>Earning Before Interests, Taxes (EBIT)</b>	-\$21,915	-\$492,101	\$370,221	\$4,314,810	\$6,010,485
Tax rate = 30%					
Potential Tax payable	-\$6,575	-\$147,630	\$111,066	\$1,294,443	\$1,803,146
Tax rolled over	\$0	-\$6,575	-\$154,205	-\$43,139	\$0
<b>Net Profit After Tax</b>	-\$21,915	-\$492,101	\$370,221	\$3,063,505	\$4,207,340

# SUMMARY STATEMENT OF FINANCIAL PERFORMANCE: BEST CASE

	2006/07	2007/08	2008/09	2009/10	2010/11
<b>Bellon AVD 500</b>					
Domestic Revenue ( AUD)	\$17,672	\$424,747	\$883,575	\$1,262,250	\$1,388,475
International Revenue ( USD)	\$0	\$389,813	\$3,066,525	\$7,432,425	\$9,376,290
<b>Cost of sales</b>	\$5,544	\$371,754	\$1,444,725	\$3,093,975	\$3,866,580
<b>Bellon AVD 600</b>					
Domestic Revenue ( AUD)	\$10,973	\$211,613	\$438,900	\$627,000	\$689,700
International Revenue ( USD)	\$0	\$235,125	\$1,849,650	\$4,483,050	\$5,655,540
<b>Cost of sales</b>	\$2,079	\$129,645	\$414,540	\$772,740	\$1,030,752
Inventory cost	\$0	\$46,809	\$259,673	\$716,130	\$854,424
<b>Net Revenue</b>	\$21,021.00	\$782,526.63	\$4,665,954.17	\$10,545,821.67	\$13,028,452.33
<b>Operating expenses:</b>					
Accounting, Legal and Admin	\$4,000	\$51,000	\$53,550	\$56,228	\$59,039
Rent	\$0	\$45,000	\$47,250	\$49,613	\$52,093
Advertising and Marketing	\$18,000	\$400,000	\$1,185,000	\$1,798,750	\$2,102,688
Intellectual property strategy	\$1,800	\$0	\$100,000	\$100,000	\$100,000
IT infrastructure	\$0	\$50,000	\$300,000	\$400,000	\$420,000
Motor vehicle expenses	\$0	\$0	\$65,000	\$180,000	\$180,000
Salaries and wages					
Management	\$0	\$397,375	\$635,250	\$715,523	\$895,010
Technical and sales	\$0	\$133,375	\$926,888	\$1,109,666	\$1,000,670
Machinery and equipment	\$0	\$15,000	\$35,000	\$36,750	\$38,588
Recruitment expenditure	\$0	\$20,000	\$40,000	\$10,000	\$0
Consultant fees	\$16,455	\$20,000	\$200,000	\$210,000	\$220,500
<b>Total Operating Expenses</b>	\$40,255	\$1,131,750	\$3,587,938	\$4,666,529	\$5,068,587
<b>Earning Before Interests, Taxes (EBIT)</b>	-\$19,234	-\$349,223	\$1,078,017	\$5,879,293	\$7,959,865
Tax rate = 30%					
Potential Tax payable	-\$5,770	-\$104,767	\$323,405	\$1,763,788	\$2,387,960
Tax rolled over	\$0	-\$5,770	-\$110,537	\$212,868	\$0
<b>Net Profit After Tax</b>	-\$19,234	-\$349,223	\$865,149	\$3,902,637	\$5,571,906

## SUMMARY STATEMENT OF FINANCIAL PERFORMANCE: WORST CASE

	2006/07	2007/08	2008/09	2009/10	2010/11
<b>Bellon AVD 500</b>					
Domestic Revenue ( AUD)	\$12,049	\$289,600	\$602,438	\$860,625	\$946,688
International Revenue ( USD)	\$0	\$265,781	\$2,090,813	\$5,067,563	\$6,392,925
<b>Cost of sales</b>	\$4,620	\$344,795	\$1,273,938	\$2,683,313	\$3,362,150
<b>Bellon AVD 600</b>					
Domestic Revenue ( AUD)	\$7,481	\$144,281	\$299,250	\$427,500	\$470,250
International Revenue ( USD)	\$0	\$160,313	\$1,261,125	\$3,056,625	\$3,856,050
<b>Cost of sales</b>	\$1,733	\$125,538	\$450,450	\$818,950	\$1,103,960
Inventory cost	\$0	\$57,211	\$317,378	\$875,270	\$1,044,296
<b>Net Revenue</b>	\$13,177.50	\$379,775.56	\$2,584,297.50	\$5,937,467.50	\$7,294,281.50
<b>Operating expenses:</b>					
Accounting, Legal and Admin	\$4,000	\$51,000	\$53,550	\$56,228	\$59,039
Rent	\$0	\$45,000	\$47,250	\$49,613	\$52,093
Advertising and Marketing	\$18,000	\$400,000	\$1,185,000	\$1,798,750	\$2,102,688
Intellectual property strategy	\$1,800	\$0	\$100,000	\$100,000	\$100,000
IT infrastructure	\$0	\$50,000	\$300,000	\$400,000	\$420,000
Motor vehicle expenses	\$0	\$0	\$65,000	\$180,000	\$180,000
Salaries and wages					
Management	\$0	\$397,375	\$635,250	\$715,523	\$895,010
Technical and sales	\$0	\$133,375	\$926,888	\$1,109,666	\$1,000,670
Machinery and equipment	\$0	\$15,000	\$35,000	\$36,750	\$38,588
Recruitment expenditure	\$0	\$20,000	\$40,000	\$10,000	\$0
Consultant fees	\$16,455	\$20,000	\$200,000	\$210,000	\$220,500
<b>Total Operating Expenses</b>	\$40,255	\$1,131,750	\$3,587,938	\$4,666,529	\$5,068,587
<b>Earning Before Interests, Taxes (EBIT)</b>	-\$27,078	-\$751,974	-\$1,003,640	\$1,270,939	\$2,225,695
Tax rate = 30%					
Potential Tax payable	-\$8,123	-\$225,592	-\$301,092	\$381,282	\$667,708
Tax rolled over	\$0	-\$8,123	-\$233,716	-\$534,808	\$0
<b>Net Profit After Tax</b>	-\$18,954	-\$751,974	-\$468,832	\$1,424,465	\$1,557,986

## STATEMENT OF FINANCIAL POSITION

Note: Prepared without intangibles as difficult to calculate.

	2006/07	2007/08	2008/09	2009/10	2010/11
<b>Current Assets</b>					
Inventories		\$52,010	\$288,525	\$1,136,235	\$2,085,595
Receivables	\$132,516	\$158,654	\$480,387	\$590,925	\$999,813
Cash	\$3,817	-\$8,184	\$762,037	\$4,225,542	\$8,432,881
<b>Total Assets</b>	\$136,333	\$202,480	\$1,530,949	\$5,952,702	\$11,518,289
<b>Liabilities</b>	\$0	\$0	\$0	\$0	\$0
<b>Share Capital</b>					
Founder shares	\$158,248	\$158,248	\$158,248	\$158,248	\$158,248
Additional Equity	\$0	\$400,000	\$800,000	\$1,200,000	\$1,200,000
Retained Earnings	-\$21,915	-\$355,768	\$572,701	\$4,594,454	\$10,160,041
<b>Total Equity</b>	\$136,333	\$202,480	\$1,530,949	\$5,952,702	\$11,518,289

## CASH FLOW STATEMENT

	F.Y.	2007/08	2008/09	2009/10	2010/11
<b>Cash flow from Operations</b>					
Cash receipts from customers (a)		\$1,209,759	\$6,168,083	\$13,753,333	\$17,072,917
Cash paid to suppliers		\$572,110	\$2,212,025	\$4,774,200	\$5,996,160
Cash paid to salaries, super		\$530,750	\$1,562,138	\$1,825,189	\$1,895,680
Cash paid for operating expenses		\$599,000	\$2,023,700	\$2,839,135	\$3,170,592
Cash generated from operations		-\$492,101	\$370,221	\$4,314,810	\$6,010,485
Income taxes paid		\$0	\$0	\$1,251,304	\$1,803,146
Net cash flows from operating activities		-\$492,101	\$370,221	\$3,063,505	\$4,207,340
<b>Cash flows from investing activities</b>					
Net cash flows from investing activities		\$0	\$0	\$0	\$0
<b>Cash flows from financing activities</b>					
Shareholders equity		\$80,000	\$0	\$0	\$0
Equity finance		\$400,000	\$400,000	\$400,000	\$0
Net cash flows used in financing activities		\$480,000	\$400,000	\$400,000	\$0
Net increase in cash and cash equivalents		-\$12,101	\$770,221	\$3,463,505	\$4,207,340
Cash and cash equivalents, beginning of year		\$3,917	-\$8,184	\$762,037	\$4,225,542
Cash and cash equivalents, end of year		-\$8,184	\$762,037	\$4,225,542	\$8,432,881



## 9.7 Break Even

The company should meet break even after production of 1,169 units, predicted to be achieved early in the 4<sup>th</sup> Quarter of FY2007/08.

	FY 2007/08
Break Even Production	1,169
Predicted Sales	2,908

## 9.8 Exit Strategy

The company's exit strategy is to be acquired by a large electronics/communication company. The intrinsic fit between Bellon's technology and the technology of most major electronics manufacturers will result in a high purchase price.

In the event this does not occur, the company will be sold via IPO.

# Appendix A

## Financial Statements

### NET PRESENT VALUE

<b>Nominal case</b>	
Internal rate of return:	45%
Multiple:	8
Earnings in 2010-11 F.Y.	\$6,010,485
Future Value	\$48,083,881
Present Value	\$10,877,460
Investor Share	11.03%
<b>Worst case</b>	
Internal rate of return:	55%
Multiple:	8
Earnings in 2010-11 F.Y.	\$2,225,695
Future Value	\$17,805,557
Present Value	\$3,084,813
Investor Share	38.90%
<b>Best case</b>	
Internal rate of return:	35%
Multiple:	8
Earnings in 2010-11 F.Y.	\$7,959,865
Future Value	\$63,678,924
Present Value	\$19,171,701
Investor Share	6.26%
<b>Weighted average*</b>	
Present value	\$11,002,858.40
Investor share:	10.91%

\*Probabilities at 50% nominal, 25% best case, 25% worst case

# FULL STATEMENT OF FINANCIAL PERFORMANCE: EXPECTED CASE

	Notes	2006/07	2007/08	2008/09	2009/10	2010/11
<b>Revenue from ordinary activities</b>						
<b>Revenue Streams</b>						
<b>Bellon AVD 500</b>						
Unit Volumes	1					
Australia / New Zealand		28	673	1400	2000	2200
Asia		0	0	1500	5000	6600
Middle East		0	0	0	750	1320
Europe		0	0	150	1050	1320
United States		0	750	4250	7500	8800
Revenue ( USD)		\$0	\$354,375	\$2,787,750	\$6,756,750	\$8,523,900
Revenue ( AUD)		\$16,065	\$386,134	\$803,250	\$1,147,500	\$1,262,250
Total Revenue AUD		\$16,065	\$779,884	\$3,900,750	\$8,655,000	\$10,733,250
<b>Bellon AVD 600</b>						
Unit Volumes	1					
Australia / New Zealand		7	135	280	400	440
Asia		0	0	300	1000	1320
Middle East		0	0	0	150	264
Europe		0	0	30	210	264
United States			150	850	1500	1760
Domestic Revenue ( AUD)		\$9,975	\$192,375	\$399,000	\$570,000	\$627,000
International Revenue ( USD)		\$0	\$213,750	\$1,681,500	\$4,075,500	\$5,141,400
Total Revenue ( AUD)		\$9,975	\$429,875	\$2,267,333	\$5,098,333	\$6,339,667
<b>TOTAL REVENUE ( AUD)</b>		\$26,040	\$1,209,759	\$6,168,083	\$13,753,333	\$17,072,917
<b>Cumulative Revenue</b>		\$26,040	\$1,235,799	\$7,403,882	\$21,157,215	\$38,230,132
<b>Cost of Sales</b>						
<b>Bellon AVD 500</b>						
Production	2	\$5,600	\$284,600	\$1,277,500	\$2,852,500	\$3,542,000
Research and Development	3		\$100,000	\$200,000	\$300,000	\$400,000
Maintenance	4			\$63,875	\$142,625	\$177,100
<b>Bellon AVD 600</b>						
Production	2	\$2,100	\$85,500	\$146,000	\$326,000	\$404,800
Research and Development	3		\$50,000	\$300,000	\$500,000	\$700,000
Maintenance	4			\$7,300	\$16,300	\$20,240

Total Cost of Sales		\$7,700	\$520,100	\$1,923,500	\$3,978,500	\$5,046,800
Inventory Cost			\$52,010	\$288,525	\$795,700	\$949,360
Inventory On Hand			\$52,010	\$340,535	\$1,136,235	\$2,085,595
<b>Total Net Operating Profit</b>		<b>\$18,340</b>	<b>\$637,649</b>	<b>\$3,956,058</b>	<b>\$8,979,133</b>	<b>\$11,076,757</b>
<b>Operating Expenses:</b>						
Accountancy & Taxation	5	\$0	\$10,000	\$10,500	\$11,025	\$11,576
Bank Fees & Charges	6	\$0	\$1,000	\$1,050	\$1,103	\$1,158
Filing Fees	7	\$0	\$5,000	\$5,250	\$5,513	\$5,788
Legal Fees (General)	8	\$0	\$15,000	\$15,750	\$16,538	\$17,364
Postage	9	\$0	\$1,000	\$1,050	\$1,103	\$1,158
Printing, Stationery & Supplies	10	\$0	\$2,000	\$2,100	\$2,205	\$2,315
Rent	11	\$0	\$45,000	\$47,250	\$49,613	\$52,093
Telephone Expenses	12	\$4,000	\$15,000	\$15,750	\$16,538	\$17,364
Advertising		\$0	\$0	\$0	\$0	
Marketing	13	\$5,000	\$250,000	\$800,000	\$1,200,000	\$1,320,000
Conferences & Exhibitions	14	\$2,000	\$35,000	\$50,000	\$52,500	\$55,125
Media	15		\$30,000	\$50,000	\$75,000	\$100,000
Travel	16	\$0	\$0	\$25,000	\$26,250	\$27,563
Overseas Travel	17	\$7,000	\$50,000	\$175,000	\$300,000	\$400,000
Accommodation	18	\$2,000	\$20,000	\$50,000	\$100,000	\$150,000
Client Entertainment	19	\$0	\$10,000	\$25,000	\$35,000	\$40,000
Internet Costs	20	\$2,000	\$5,000	\$10,000	\$10,000	\$10,000
Intellectual Property Strategy	21	\$1,800	\$0	\$100,000	\$100,000	\$100,000
Accounting & IT infrastructure	22	\$0	\$50,000	\$300,000	\$400,000	\$420,000
Motor Vehicle Expenses	23	\$0	\$0	\$10,000	\$30,000	\$30,000
MV Lease expenses	24	\$0	\$0	\$55,000	\$150,000	\$150,000
Machinery & Equipment	25	\$0	\$15,000	\$35,000	\$36,750	\$38,588
Recruitment Expenditure	26	\$0	\$20,000	\$40,000	\$10,000	\$0
Consultant Fees	27	\$16,455	\$20,000	\$200,000	\$210,000	\$220,500
<b>Total Operating Expenses:</b>		<b>\$40,255</b>	<b>\$599,000</b>	<b>\$2,023,700</b>	<b>\$2,839,135</b>	<b>\$3,170,592</b>
<b>Salaries &amp; Wages:</b>						
Headcount			7	17	19	19
Salary and Wages		\$0	\$530,750	\$1,562,138	\$1,825,189	\$1,895,680
		\$0	\$530,750	\$1,562,138	\$1,825,189	\$1,895,680
<b>Total Operating Expenses</b>		<b>\$40,255</b>	<b>\$1,129,750</b>	<b>\$3,585,838</b>	<b>\$4,664,324</b>	<b>\$5,066,272</b>
<b>Earning Before Interests, Taxes &amp; Depreciation (EBITDA)</b>		<b>-\$21,915</b>	<b>-\$492,101</b>	<b>\$370,221</b>	<b>\$4,314,810</b>	<b>\$6,010,485</b>
<b>Tax rate 30%</b>						
Potential Tax payable		-\$6,575	-\$147,630	\$111,066	\$1,294,443	\$1,803,146
Tax rolled over			-\$6,575	-\$154,205	-\$43,139	\$0
<b>Net Profit After Tax</b>		<b>-\$21,915</b>	<b>-\$492,101</b>	<b>\$370,221</b>	<b>\$3,063,505</b>	<b>\$4,207,340</b>

## FULL STATEMENT OF FINANCIAL PERFORMANCE: NOTES

1	Unit Sales	<p>Unit sales in each sector are expected to grow rapidly due to the small number of highly influential buyers, (i.e. each developer is responsible for several buildings and thus several purchases per annum) then taper off once market share is obtained.</p> <p>Due to sales through distributors, entry into new markets will be rapid. This is essential due to aforementioned risk.</p>
2	Production	Each unit will be produced through contract manufacturing. The production of a mould for the casing is mostly responsible for the drop in price as production levels increase.
3	Research and Development	Ongoing research and development is essential to staying competitive in the market. Estimated by industry averages.
4	Maintenance	Maintenance is predicted to be equal to 5% of the production costs, comparable to the industry average.
5	Accountancy & Taxation	Accounting will not be done in-house. An independent advisory firm will be hired. This was calculated from the industry average
6	Bank Fees & Charges	Extrapolated from previous bank statements.
7	Filing Fees	Filing fees for legal documents, including import permits and trademarks.
8	Legal Fees (General)	For generating and assessing contracts and other general legal work. Taken from previous work and quotation.
9	Postage	Extrapolated from previous expenditure.
10	Printing, Stationery & Supplies	Extrapolated from previous expenditure.
11	Rent	Based on quotes and conservative estimate for approximately 200 m <sup>2</sup> combined warehouse office based in Western Sydney.
12	Telephone Expenses	Extrapolated from previous expenditure.
13	Marketing	Marketing expense includes setting up information, promotion, contact and negotiation marketing channels, Integrated Marketing communication (including public relations, direct and online marketing, sales promotion and personal selling).
14	Conferences & Exhibitions	Includes domestic and overseas technology showcases.
15	Media	Press releases and other associated media costs. Taken from an industry average.

16	Travel	Domestic travel to generate and maintain relationships with domestic distributors and investigate new markets.
17	Overseas Travel	International travel to generate and maintain relationships with overseas distributors and investigate new markets. Estimated from 20 return economy flights per country per year.
18	Accommodation	Accommodation for overseas travels. Estimated from approximately 20 trips per country per year.
19	Client Entertainment	Due to the small number of high-profile clients used by the business this is a necessary expenditure.
20	Internet Costs	Internet site will continue to act as marketing tool and possible expansion into sales device. Extrapolated from previous expenditure.
21	Intellectual Property Strategy	Expense in order to continue the individual country filing process and for additional protection for research and development activities.
22	Accounting & IT infrastructure	Includes purchase of SAP business infrastructure as well as consulting and installation costs.
23	Motor Vehicle Expenses	Expenses for vehicles used by domestic sales representatives (petrol and associated costs). Calculated at \$10,000 per vehicle per annum. One car is used in 2008-09, followed by three cars in 2009-10 onwards.
24	MV Lease expenses	Cost to lease vehicles used by sales representatives. Calculated at approximately \$50,000 per vehicle per annum.
25	Machinery & Equipment	Includes costs of new moulds and other supplies for contract manufacturing. Importantly, these are not depreciated as it is assumed they will become useless over the course of a single year and can therefore be expensed.
26	Recruitment Expenditure	Calculated at approximately \$5,000 in hiring costs per new employee. This includes advertising the position, screening and training.
27	Salary and Wages	See employment summary below for details of positions hired.

## EMPLOYEES

Salaries & Wages (5% increase every year in January)	Salary Package				
	2006/07	2007/08	2008/09	2009/10	2010/11
Director	\$0	\$150,000	\$157,500	\$165,375	\$173,644
Director	\$0	\$150,000	\$157,500	\$165,375	\$173,644
Channel Sales Mgr		\$100,000	\$105,000	\$110,250	\$115,763
Sales Mgr			\$78,750	\$82,688	\$86,822
Sales Mgr			\$78,750	\$82,688	\$86,822
Sales Mgr				\$82,688	\$86,822
Administration		\$40,000	\$42,000	\$44,100	\$46,305
Administration			\$42,000	\$44,100	\$46,305
Administration				\$44,100	\$46,305
R+D Engineer		\$85,000	\$89,250	\$93,713	\$98,398
R+D Engineer			\$89,250	\$93,713	\$98,398
Programmer			\$89,250	\$93,713	\$98,398
Tech Support			\$89,250	\$93,713	\$98,398
Tech Support			\$89,250	\$93,713	\$98,398
Fin Controller			\$126,000	\$132,300	\$138,915
Export Admin			\$47,250	\$49,613	\$52,093
Manufacturing Mgr			\$105,000	\$110,250	\$115,763
Manufacturing Asst		\$45,000	\$47,250	\$49,613	\$52,093
QA Asst		\$45,000	\$47,250	\$49,613	\$52,093
Salary and Wages	\$0	\$1,525,000	\$1,601,250	\$1,681,313	\$1,765,378